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SUBJECT: AIR JAMAICA STILL BLEEDS CASH, GOJ SEEKS BUYER

REF: A. 07 KINGSTON 0897  
[1](#)B. 06 KINGSTON 2314  
[1](#)C. 04 KINGSTON 3385

Classified By: Charge d'Affaires a. i. James Heg for reasons 1.4 b and d

SUMMARY  
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[1](#)1. (SBU) The Government of Jamaica (GOJ) is aggressively searching for a private sector partner to take over ailing Air Jamaica. The airline lost nearly USD 120 million in 2007 with expectations that losses for 2008 will be USD 160 million. Air Jamaica has struggled with profitability for years, resulting in nearly USD 1 billion in losses for the decade. The new Jamaica Labor Party (JLP)-led government has tasked Senator Don Wehby with privatizing Air Jamaica by March 2009. Wehby told the press on January 7 that he has a list of four (unnamed) potential buyers. The GOJ seems unwilling to make decisions that would give a private sector partner free reign to fix the airline, particularly in regard to employment issues. However, recent press reports indicate that major layoffs may be planned. The GOJ wants to retain the Air Jamaica brand, preserve certain routes that are significant to Jamaican travelers and tourists, and retain a stake in the airline.

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Fixing Air Jamaica Won't Be Easy  
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[1](#)2. (C) Econoff met with Peter Delany, CEO of Airone, which specializes in airline startups and turnarounds. Delany said his firm has been in talks with the GOJ about starting a low-cost regional airline based in Kingston. He said Prime Minister Bruce Golding had offered Airone the opportunity to take over Air Jamaica for USD 1. Delany said one nonstarter to the deal is that the GOJ is unwilling to take a tough stance on downsizing the 2,500 Air Jamaica staff. According to Delany, the JLP fears the potential political fall out that would ensue if it were to put so many Jamaicans out of work in a business that is a symbol of national pride. The JLP wants the private sector to "be the bad guy and clear out Air Jamaica employees" as part of the takeover.

[1](#)3. (C) Delany suggests that this would be a bureaucratic and public relations disaster for any firm thinking of buying the beleaguered airline. He added that a takeover of this nature is difficult even without these types of labor issues. Delany opined that the GOJ should begin massive layoffs and require former employees to reapply for their jobs, thus allowing a new firm to start clean and hire back only the most competent

former Air Jamaica staff, and to bring in its own people. The Gleaner newspaper announced on January 6 that the Air Jamaica board has recommended that 30 percent of the airline's employees be made redundant. The decision comes as a surprise to the National Worker's Union, which represents the employees. It remains to be seen if this recommendation will actually be implemented.

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GOJ's Preoccupation With Air Jamaica Hinders Other Airline Projects  
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¶4. (C) Delany said he represents investors who stand ready to invest an initial USD 30 million to start a small low-cost regional airline offering direct flights between Trinidad and Tobago, Barbados, and other key Caribbean destinations. Delany laments that problems with Air Jamaica are hindering his ability to get a green light for a new airline from the GOJ. He said that PM Golding's response has been that he could not support the project at this time, because the administration must first find a solution to Air Jamaica.

¶5. (C) The issue appears to be dividing key ministers in the JLP-led government. Delany said he has the support of Finance Minister Audley Shaw and Minister of Commerce and Industry Karl Samuda, but has not been able to convince PM Golding. In order to move forward, Delany needs a waiver of the local ownership requirement from the Minister of Transportation. Delany said this waiver is not an unusual request for a new airline. Delany also would need a statement from the Jamaican Civil Aviation authority stating there are no impediments to timely issuance of an airline operator's certificate (i.e., within 90 to 120 days). Delany expressed dismay that the new JLP-led government, despite its pro-foreign investment rhetoric, is not more interested in attracting a new investment like his airline. He added that time is running out for the GOJ to support the project: If it passes on this opportunity, he already is in discussions with another Caribbean country.

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GOJ Tasks Wehby  
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¶6. (U) Senator Don Wehby, Minister Without Portfolio in the Ministry of Finance and Public Service, has been tasked with helping the GOJ find buyers for some of its loss making parastatals such as Air Jamaica. Wehby announced on January 7 that the GOJ has a list of four major airline firms interested in taking over Air Jamaica. The GOJ maintains that any takeover firm must retain the Air Jamaica brand and must have a plan to increase the flow of tourists to the island. The GOJ will also retain a certain percentage of the airline, but Wehby said the exact portion must be worked out during negotiations.

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Prior Take Over Unsuccessful  
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¶7. (C) A prior private sector take over in 1995 by entrepreneur Gordon "Butch" Stewart failed; Air Jamaica racked up USD 680 million in losses and USD 560 million in debt (reftel C). At the time, the GOJ had retained a 25 percent stake in the airline. Some speculate that Stewart was more concerned about lowering ticket prices to bring tourists to his chain of Sandals resorts than about making Air Jamaica truly profitable. The remaining shares of Air Jamaica eventually were returned to the GOJ at the end of ¶2004. The airline proceeded to lose approximately USD 120 million per year in 2005, 2006 and 2007 (reftel A). Minister of Commerce and Industry Karl Samuda, has suggested that Air Jamaica will lose close to 160 million in 2008, a figure that Delany confirms.

¶8. (SBU) Until recently, the airline was run by (AmCit) Mike Conway, who had been a founding partner of the low-cost

airline America West during 2006 and 2007 (reftel A). Conway resigned as CEO of Air Jamaica in October 2007, with one year remaining on his contract, and was replaced by William Rodgers. Air Jamaica sold its slots at UK's Heathrow Airport in 2007 (reftel A), and entered into code sharing agreement with British carrier Virgin Airways in November 2007.

Comment

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19. (C) Despite campaigning on a pro-business platform, in the case of the aviation sector, the JLP appears unwilling to pave the way for investors who come calling. It appears that Golding's approach may differ from that of Karl Samuda and Audley Shaw, both of whom seem more interested in closer ties with the U.S. and more proactive in attracting foreign investment to the island. Golding has said he wants to help Jamaica grow its way out of debt; privatizing Air Jamaica is a key step, but so too is seizing opportunities presented by prospective investors.

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